

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY
OF
M. ELIZABETH FORD**

APRIL 16, 2009



DOCKET NO. 2009-12-S

**Application of Aqua South Carolina, Inc. for
Approval of a New Schedule of Rates and
Charges for Sewerage Services Provided to
Customers in Spartanburg County**

**DIRECT TESTIMONY OF M. ELIZABETH FORD
FOR**

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2009-12-S

**IN RE: APPLICATION OF AQUA SOUTH CAROLINA, INC. FOR APPROVAL
OF A NEW SCHEDULE OF RATES AND CHARGES FOR SEWERAGE
SERVICES PROVIDED TO CUSTOMERS IN SPARTANBURG COUNTY**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Elizabeth Ford, and my business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the state of South Carolina, Office of Regulatory Staff (“ORS”) as a Program Specialist for the Water and Wastewater Department.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. In 2003, I graduated from Clemson University with a Bachelors of Arts in Sociology. After graduating from Clemson University, I was employed by the South Carolina Public Service Commission in the Consumer Services Department assisting telecommunications customers. Later, I joined ORS with the transfer of consumer services responsibilities. In September of 2005, I was promoted to Lifeline Intake Manager. As the Intake Manager, I assisted and verified low-

1 income individuals for the South Carolina Lifeline and Link-up program. In June
2 2007, I became the Program Specialist for the Water and Wastewater Department.

3 **Q. DESCRIBE YOUR RESPONSIBILITIES AS THE PROGRAM**
4 **SPECIALIST FOR THE WATER AND WASTEWATER DEPARTMENT.**

5 A. My responsibilities include performing analyses and providing testimony
6 in formal proceedings before the Commission regarding rate base determinations,
7 rate schedules, general terms and conditions, cost of service and depreciation
8 studies, and compliance with applicable rules and regulations. In addition, my
9 responsibilities include monitoring federal activity to determine its impact on state
10 regulations and policies.

11 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
12 **PROCEEDING?**

13 A. The purpose of my testimony is to set forth the ORS findings relative to
14 my review of the rate increase application submitted by Aqua South Carolina, Inc.
15 (“Aqua SC”). Specifically, I will focus on Aqua SC’s compliance with the Public
16 Service Commission of South Carolina’s (“Commission” or “PSC”) rules and
17 regulations, ORS’s Business Compliance Review of Aqua SC’s wastewater
18 system, test-year revenue and calculated proposed revenue, and performance bond
19 requirements.

20 **Q. ARE THE FINDINGS OF YOUR REVIEW CONTAINED IN THIS**
21 **TESTIMONY AND ACCOMPANYING EXHIBITS?**

22 A. Yes, my testimony and the attached exhibits detail ORS’s findings and
23 recommendations.

1 **Q. PLEASE EXPLAIN HOW YOU COMPILED INFORMATION FOR YOUR**
2 **TESTIMONY AND EXHIBITS.**

3 A. I used ORS Business Office Compliance Review results, information
4 provided by Aqua SC in its application and additional information provided by
5 Aqua SC during the course of our business review and facility site inspections. I
6 also reviewed Aqua SC's financial statements and performance bond documents
7 submitted to the Commission.

8 **Q. PLEASE PROVIDE AN OVERVIEW OF THE LOCATION, SERVICE**
9 **TYPE AND CUSTOMER BASE SERVED BY AQUA SC.**

10 A. Aqua SC is a public utility providing wastewater collection services. As a
11 subsidiary of Aqua America, Inc., Aqua SC is a National Association of
12 Regulatory Utility Commissioners ("NARUC") Class C wastewater utility in
13 South Carolina according to wastewater revenue reported on its application for
14 the test year ending on June 30, 2008. Aqua SC's service area includes 408
15 residential and commercial customers within and near the Brookside Village
16 Subdivision located in Spartanburg County. ORS received no complaints during
17 Aqua SC's test year.

18 **Q. PLEASE EXPLAIN EXHIBIT MEF-1 OF YOUR REPORT.**

19 Exhibit MEF-1 provides a summary of the Business Office Compliance
20 Review completed by ORS. During the Business Office Compliance Review,
21 ORS reviewed Aqua SC's office records to determine compliance with
22 Commission rules and regulations.

1 Aqua SC customers are provided with potable water, billing and collection
2 services by Startex Jackson Wellford Duncan Water District ("SJWD").
3 Customers receive a combined bill from SJWD for both water and sewer services.
4 Under a commercial arrangement with Aqua SC, SJWD is responsible for issuing
5 customer bills, disconnect notices, payment plans and deposit refunds to
6 customers in a timely manner. ORS noted one deficiency in the bill form used by
7 SJWD. The bill does not include the rate structure or reference to the rate
8 structure as required in R. 103-532. Aqua SC has met the Annual Report and
9 Gross Receipts requirements. ORS also notes that Aqua SC does not maintain a
10 local office in the state of South Carolina as required in R. 103-530.

11 **Q. PLEASE EXPLAIN EXHIBIT MEF-2 OF YOUR REPORT.**

12 A. Exhibit MEF-2 is a summary of the wastewater collection system
13 inspected by ORS on February 9, 2009. Aqua SC currently provides adequate
14 wastewater collection service to its customers. Treatment and disposal of the
15 wastewater are provided by Spartanburg Sanitary Sewer District ("SSSD"). The
16 collection system is checked on a monthly basis by a licensed operator or as
17 needed when consumer complaints are received. As required by the Commission
18 regulations, general housekeeping items including system entry points, access
19 roads and signage were found to be satisfactory during the audit. When problems
20 are identified, Aqua SC appears to be addressing the issues in a timely manner.

21 **Q. EXPLAIN THE TEST YEAR REVENUE INFORMATION COMPUTED**
22 **BY ORS FOR AQUA SC.**

1 A. Exhibit MEF-3 provides a comparison of Aqua SC's service revenue at
2 the current Commission approved rates and its service revenue at its proposed
3 rates. ORS used the total number of invoices issued during the test year ending
4 June 30, 2008 and Aqua SC's current and proposed rates as the basis for all
5 calculations. ORS and Aqua SC propose an adjustment of \$1,085 to normalize
6 service revenue for the test year.

7 In summary, ORS calculated Aqua SC's test year service revenue for
8 wastewater operations, as adjusted, of \$100,368. For, comparison purposes, ORS
9 calculated the proposed wastewater service revenue of \$209,206.

10 **Q. PLEASE EXPLAIN EXHIBIT MEF-4 OF YOUR REPORT.**

11 A. Exhibit MEF-4 is a summary of the current PSC approved rates for Aqua
12 SC and Aqua SC's proposed rates requested in their application. Aqua SC
13 proposes to increase its tap fee charge to \$500/single family equivalent. Aqua SC
14 did not provide a cost justification for this increase. In addition, Aqua SC does
15 not anticipate any customer growth over the next five years.

16 **Q. DOES AQUA SC CHARGE A COMMERCIAL MONTHLY RATE PER**
17 **SINGLE FAMILY EQUIVALENT (SFE)?**

18 A. No. Although Aqua SC's currently approved commercial monthly rate
19 schedule references the ability to charge by SFE, Aqua SC currently charges
20 commercial customers a flat monthly rate and is requesting to continue this
21 practice.

22 **Q. IS AQUA SC REQUESTING A PASS-THROUGH RATE STRUCTURE**
23 **FOR THE TREATMENT OF WASTEWATER?**

1 A. Yes. Aqua SC is requesting a pass-through rate structure for the treatment
2 of wastewater. ORS understands that should SSSD increase its fees and charges
3 for wastewater treatment and disposal, Aqua SC would like to pass this increase
4 through to its customers. ORS recommends the pass-through language included in
5 Aqua SC's tariff contain the following provisions: (1) the rates charged by the
6 SSSD shall be passed through to the utility customers on a pro rata basis, without
7 mark-up; (2) the utility shall give the Commission thirty days notice of its intent
8 to pass-through treatment charges which are higher than those currently in effect;
9 (3) the utility shall provide justification of the requested amount to be passed-
10 through; and (4) the utility shall provide written notice to the customers before the
11 Commission approved increase may be put into effect.

12 **Q. PLEASE EXPLAIN THE STATUS OF THE PERFORMANCE BOND FOR**
13 **AQUA SC.**

14 A. Aqua SC has a current performance bond on file with the Commission for
15 wastewater operations using an Insurance Certificate as surety in the amount of
16 \$100,000 for wastewater operations. Based on the expenses from the test year
17 and using the criteria set forth in 26 S.C. Code Regs. 103-512.3.1, ORS
18 determined that the face amount of Aqua SC's bond should be \$140,000 for
19 wastewater operations (Exhibit MEF-5). Aqua SC's bonding criteria expenses, as
20 adjusted, totaled \$135,557 for the test year ending June 30, 2008. ORS
21 respectfully requests that the Commission increase Aqua SC's performance bond
22 requirement for wastewater operations to \$140,000 as it is in the public interest

1 for Aqua SC to obtain a bond that satisfies the criteria as set forth in S.C. Code
2 Ann. § 58-5-720 (Supp. 2008).

3 **Q. ON WHAT BASIS DOES ORS MAKE DEPRECIABLE SERVICE LIFE**
4 **RECOMMENDATIONS?**

5 A. ORS recommendations are based on the conclusions outlined in the
6 Florida Public Service Commission Water and Wastewater System Regulatory
7 Law as recommended by the NARUC staff. ORS's approach and conclusions
8 made concerning depreciation are consistent with the Public Utility Depreciation
9 Practices manual as published by NARUC in 1996.

10 **Q. WHAT OPERATING MARGIN DOES ORS RECOMMEND FOR AQUA**
11 **SC IN THIS RATE CASE?**

12 A. Using ORS' proposed adjustments for the test year ending June 30, 2008,
13 the Operating Margin computed by ORS for Aqua SC is (38.27%). Aqua SC
14 proposed increase, with ORS proposed adjustments, would generate an operating
15 margin of 23.42%. ORS recommends an operating margin range of 10-15%
16 which will provide a prudent balance between the consumer's need for affordable,
17 quality services and Aqua SC's financial health. It is the position of ORS that this
18 operating margin range, as recommended, is fair and reasonable and balances the
19 overall public interest. I would request the Commission approve rates that would
20 produce an operating margin within this range.

21 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

22 A. Yes it does.

REVIEW OF WASTEWATER SERVICES
AQUA SOUTH CAROLINA, INC.
DOCKET: 2009-12-S

The Office of Regulatory Staff (“ORS”) of South Carolina performed a Business Compliance audit of the revenue, customer complaint, and customer deposit records of Aqua South Carolina, Inc. (“Aqua SC”) in preparation for this rate case. Aqua SC currently provides wastewater collection services to commercial and residential customers in Aqua SC’s service area. This includes Brookside Subdivision located in Spartanburg County. As of June 30, 2008, Aqua SC was providing wastewater services to 406 residential customers and 2 commercial customers.

The ORS Consumer Services Department received no consumer complaints regarding Aqua SC during the test year. Since the Notice of Filing was mailed to Aqua SC customers, the Public Service Commission has received no Petitions to Intervene.

ORS determined Aqua SC provides adequate wastewater collection service. However, a request was made asking the Commission to hold a night hearing on this matter locally.

The following 2 pages provide a summary of the ORS Business Compliance Audit results.



Utility: Aqua South Carolina, Inc.
Inspector: Elizabeth Ford and Willie Morgan
Office: n/a
Utility Type: Wastewater
Date: February 9, 2009
Company Representative: Tom Roberts and Delbert Likins

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
1	All records and reports available for examination in accordance with Rule R.103-510.	X		
2	Complaint records maintained in accordance with R.103-516		X	Customers are not notified that they may contact the ORS with a complaint. Information is not available within SC.
3	Utility's rates, its rules and regulations, and its up-to-date maps and plans available for public inspection in accordance with R.103-530.		X	There is no local office and customers are not able to view rate schedule, rules and regulations, etc. at a local office.
4	Established procedures to assure that every customer making a complaint is made aware that the utility is under the jurisdiction of the South Carolina Public Service Commission and that the customer has the right to register the complaint in accordance with R.103-530.		X	Customer bill form does not contain ORS contact information.
5	Deposits charged within the limits established by R.103-531.	X		
6	Timely and accurate bills being rendered to customers in accordance with R.103-532.	X		
7	Bill forms in accordance with R.103-532.		X	Rate schedule is not provided on bill form nor is a statement given that rates are available upon request.
8	Adjustments of bills handled in accordance with R.103-533	X		
9	Policy for customer denial or discontinuance of service in accordance with R.103-535.	X		
10	Notices sent to customers prior to termination in accordance with Rule R.103-535.	X		
11	Notices filed with the Commission of any violation of PSC or DHEC rules which affect service provided to its customers in accordance with rule R.103-514.C.	X		

#	Compliance Regulation	In Compliance	Out of Compliance	Comments
12	Utility has adequate means (telephone, etc.) whereby each customer can contact the water and/or wastewater utility at all hours in case of emergency or unscheduled interruptions or service in accordance with R.103-530.	X		
13	Records maintained of any condition resulting in any interruption of service affecting its entire system or major division, including a statement of time, duration, and cause of such an interruption in accordance with R.103-514.	X		
14	Utility advised the Commission, in accordance with Rule 103-512 of the name, title, address and telephone number of the person who should be contacted in connection with general management duties, customer relations, engineering operations, emergencies during non-office hours.	X		
15	Company verified the maps on file with the Commission include all the service area of the company.	X		
16	Number of customers the company has at present time.	408		406 Residential / 2 Commercial
17	Company has a current performance bond on file with the Commission. Amount of bond: \$100,000	X		
18	Utility maintains a documented Safety Program.	X		
19	Utility maintains a documented Emergency Response plan.	X		
20	Utility maintains a documented Preventative Maintenance plan.	X		
21	Utility submitted a current Annual Report.	X		
22	Utility is in compliance with Gross Receipts reporting and payment regulations.	X		

Aqua South Carolina, Inc.
Docket 2009-12-S
Wastewater System Inspection

Exhibit MEF -2



Utility Name: Aqua South Carolina, Inc.

Number of Customers: 408

System Type: Gravity Collection System

Date Inspected: February 9, 2009

Inspected By: Elizabeth Ford/Willie Morgan - Office of Regulatory Staff

Company Representative: Tom Roberts and Delbert Likins

Type of Plant: Collection System

Permit #: SSS000595

Extent of Treatment: None

System Components Inspected	Yes	No
Chlorinator		X
Other Chemicals in Use		X
Aerators		X
Plant fenced and Locked	NA	NA
Warning Signs Visible	X	
Holes in Fence		X
Erosion of Dikes		X
Odor: Acceptable	X	
Grass Cut	X	
Duck Weed or Algae		X
Grease Build Up	X	
Debris inside of Plant		X
Color of Effluent: Acceptable	X	
Lift Stations: Number None	NA	NA
Failure Warning System	NA	NA
Electric Wiring Acceptable	NA	NA
System free of overflows	X	
Condition of Access Road: Good/Bad	Good	
New Construction		X

Frequency Checked by Licensed WWTF Operator: Monthly and when customer complaints are received

Location of Utility Office: Utility does not have office in South Carolina

Location of System: Collection System located in Spartanburg County servicing the Brookside Village Subdivision.

Subdivision provided water by this Utility: No. Startex Jackson Wellford Duncan Water District (SJWD)

Comments: This is a collection system only. Sewer is treated by Spartanburg Sanitary Sewer District (SSSD).

AQUA SOUTH CAROLINA, INC.
Docket 2009-12-S
Revenue Impact Analysis

Exhibit MEF - 3

Aqua South Carolina, Inc. Test Year Revenues at Current Rates				
Service Type	Classification	Units	Fee per Unit	Test Year Calculated Revenues
Sewer	Residential	406	\$20.50	\$99,876
	Commercial	2	\$20.50	\$492
TOTAL				\$100,368

Aqua South Carolina, Inc. Revenues at Proposed Rates						
Service Type	Classification	Units	Fee per Unit	Test Year Proposed Revenue	Increase Amount	% Increase
Sewer	Residential	406	\$42.73	208,180.56	108,304.56	108.4%
	Commercial	2	\$42.73	1,025.52	533.52	108.4%
TOTAL				209,206.08	108,838.08	108.4%

AQUA SOUTH CAROLINA, INC.
Docket 2009-12-S
Schedule of Rates and Charges

Exhibit MEF-4

MONTHLY CHARGES

	<u>Current</u>	<u>Proposed</u>
Residential - charge per single-family house:	\$20.50	\$42.73
Commercial:	\$20.50 per SFE*	\$42.73

NONRECURRING CHARGES:

	<u>Current</u>	<u>Proposed</u>
Sewer Tap Fee (Outside Brookside Village Subdivision)	\$400 per SFE*	\$500 per SFE*
New Customer Account Charge	\$20.00	\$20.00

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to discharge acceptable wastewater into one of its sewer systems. However, anyone or any entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to an appropriate connection point, to pay the appropriate fees and charges set forth in this rate schedule and to comply with the guidelines and standards hereof, shall not be denied service, unless treatment capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional wastewater treatment capacity and/or lines to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity and/or to the affected sewer system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loading for Domestic Wastewater Treatment Facilities -- 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2006), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

The Utility shall give the Commission thirty days notice of its intent to pass-through to customers treatment charges which are higher than those in effect at the times of the Commission's approval of the within rate schedule. The Utility shall provide with such notice written documentation of an increase by the provider of treatment services justifying the increase in the amount of treatment charges sought to be passed-through to affected customers. In the event that an increase in the amount of treatment charges to be passed through to customers is found by the Commission to be so justified, the utility will then be required to give customers advance notice before the increase in the treatment charges to be passed through may be put into effect.

**Aqua South Carolina, Inc.
2009-12-S
Performance Bond Requirement**

Exhibit MEF-5

Aqua South Carolina, Inc. - Wastewater			
Bond Value Components	Application per Books	After ORS's Proposed Accounting & Pro forma Adjustments	After Applicant's Proposed Increase
Salaries, Wages and Benefits	(\$2,118)	\$0	\$0
Contractual Services - A & G	\$116,116	\$111,968	\$119,569
O & M Management	\$25,542	\$12,132	\$12,132
Other	\$14,085	\$98	\$98
Bad Debt	\$235	\$235	\$493
Rate Case	\$0	\$6,816	\$6,816
Other Taxes	\$795	\$770	\$1,577
Interest	\$5,620	\$3,538	\$3,538
Income Taxes (State and Federal)	(\$22,177)	\$0	\$12,756
Bond Value Requirement	\$138,098	\$135,557	\$156,979

Current Performance Bond Structure	Bond Value (2)	Date Issued	Expiration Date
Insurance Certificate (1)	\$100,000	9/2006	Auto Renewal

(1) Insurance Certificate secures performance bond of \$100,000 for wastewater operations.

(2) Based upon operating expenses in the Company's Application a bond totalling \$140,000 will be required.